

Fiscal Estimate Narratives

DOR 4/10/2003

LRB Number	03-2043/1	Introduction Number	AB-168	Estimate Type	Original
Subject					
Taxation of economically unviable land					

Assumptions Used in Arriving at Fiscal Estimate

The bill exempts property that has no viable economic value due to restrictions on use imposed by state laws, local ordinances or local resolutions. Under the bill, a property is considered economically unviable if it meets all the following conditions: 1) it cannot be used to build or place a structure with a value of \$1,000 or more because of use restrictions imposed; 2) it cannot be used for agricultural purposes, except as pasture land, because of use restrictions; 3) it is not being used, and has not been used in the previous taxable year for recreational or educational purposes that generate income; and 4) it is not a wetland created by the property owner. Property owners would be required to submit affidavits identifying economically unviable property and why such property is economically unviable. The local board of review or the governing body of the taxation district would determine if the property meets the conditions for unviable economic property.

The bill has the potential to exempt almost all wetlands in the state to the extent that owners of wetlands typically may not build or place structures or use the land for agriculture without a permit to drain or fill the wetland. According to the Department of Natural Resources, there are approximately 5.4 million acres of wetlands. The analysis assumes the following: 1) 5% of these wetland acres were created by the property owner; 2) 20% of these wetland acres are suitable for agricultural use without any draining or filling; 3) 5% are currently exempt as part of conservancies and parks. Based on these assumptions, the bill has the potential to exempt 3.9 million acres (5.4 million acres x 95% x 80% x 95%). Assuming a value of swamp and waste of \$600 per acre, these potential acres are valued at \$2.43 billion [3.9 million acres x \$600]. Assuming an effective tax rate of \$20 per \$1,000 of value, the bill has the potential to shift \$46.8 million of property taxes from owners of wetlands to other taxable property [\$2.43 billion x .02].

The bill has the potential to exempt property enrolled in the federal-state conservation reserve enhancement program that prohibits agricultural production and building construction within 200 feet of waterways. Even though enrollment in the program is voluntary, local boards of review or governing bodies may determine the conditions for being economically unviable have been met for these properties. According to the Department of Agriculture, Trade and Consumer Protection, there are currently approximately 32,000 acres currently enrolled in the program. Assuming these acres are assessed at \$175 per acre, the bill has the potential to exempt 5.6 million acres [32,000 acres x \$175]. Assuming an effective tax rate of \$20 per \$1,000, this would result in a \$112,000 tax shift from owners of property enrolled in conservation programs to other taxable property [\$5.6 million x .02]. To the extent that the exemption allowed under the bill would encourage additional enrollments in the conservation reserve enhancement program, the tax shift would be larger.

The bill also has the potential to exempt portions of property affected by set-back restrictions imposed by county shoreland zoning that prohibit structures within 75 feet of the high water mark of waterways in the state and require buffer zones within 35 feet of the high water mark. Similarly, other setback restrictions and road right-of-ways that restrict the use of property may be exempted under the bill. To the extent that the assessed value of these portions currently reflect any use restrictions, it is assumed that these portions have low value or contribute little to the overall value of the parcel. Thus, exempting these portions would result in a minimal tax shift.

In cases where it has been determined that a portion of a parcel is deemed to be economically unviable property, it is anticipated that the assessment of the remaining taxable portion would not experience a significant reduction due to market conditions and property factors facing the taxable portion of land. Consequently, an increase in the number of valuation appeals from property owners can be expected if these owners anticipated a decrease in their assessment as a result of the exemption granted to a portion of their property. Thus, it is estimated that local costs will increase associated with these appeals.

It is estimated that department costs will increase related to taxpayer assistance, assessor training and a

possible increase in petitions for reassessments resulting from the bill. These costs may be difficult to absorb given anticipated staff reductions.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
Taxation of economically unviable land			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes	\$		
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category	\$		\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
	Increased Rev	Decreased Rev	
GPR Taxes	\$		\$
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues	\$		\$
NET ANNUALIZED FISCAL IMPACT			
	<u>State</u>	<u>Local</u>	
NET CHANGE IN COSTS	\$	\$See text of fiscal note.	
NET CHANGE IN REVENUE	\$	\$See text of fiscal note.	
Agency/Prepared By		Authorized Signature	Date
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